

ORIGINAL

MEMORANDUM



0000111432

28

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: May 10, 2010

RE: STAFF REPORT FOR PAYSON WATER COMPANY'S APPLICATION FOR A
WATER AUGMENTATION SURCHARGE TARIFF (DOCKET NOS. W-
03514A-10-0116 AND W-03514A-10-0117)

Attached is the Staff Report for Payson Water Company's ("Payson" or "Company") application for approval of a water augmentation surcharge tariff. Staff recommends approval of the Company's request for a water augmentation surcharge tariff, along with Staff's additional recommendations.

SMO:DRE:kdh

Originator: Darak R. Eaddy

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

MAY 10 2010

DOCKETED BY	
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AZ CORP COMMISSION
DOCKET CONTROL

2010 MAY 10 P 3:22

RECEIVED

Service List for: Payson Water Company
Docket Nos. W-03514A-10-0116 and W-03514A-10-0117

Mr. Partrick Black
Company Legal Representative
3003 N. Central Ave, Suite 2600
Phoenix, Arizona 85012

Mesa Del Water Committee
8119 Mescalero
Payson, Arizona 85541

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PAYSON WATER COMPANY

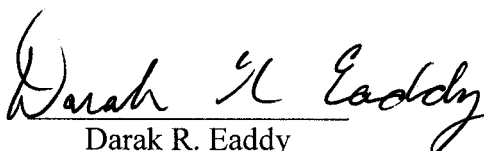
DOCKET NOS. W-03514A-10-0116 and W-03514A-10-0117

**APPLICATION FOR A
WATER AUGMENTATION SURCHARGE TARIFF**

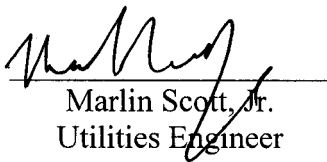
MAY 10, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Payson Water Company, Docket No. W-03514A-10-0116, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Bradley G. Morton was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utilities Analyst II



Marlin Scott, Jr.
Utilities Engineer



Bradley G. Morton
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
PAYSON WATER COMPANY
APPLICATION FOR A WATER AUGMENTATION SURCHARGE TARIFF
DOCKET NO. W-03514A-10-0116**

Payson Water Company ("Payson" or "Company") is a Class C water utility that provides water service north of the town of Payson within unincorporated portions of Gila County, Arizona. As of February 28, 2010, the Company has approximately 1,502 active water service customers, 369 of which are located in the Company's Mesa del Caballo water system.

Due to the seasonal nature of customer activity on the Mesa del Caballo system, the Company experiences substantial increased water service demands during the summer months. The high summer customer demands exacerbate a continuing water supply problem for the Company. During the 2009 summer season, the Company hauled water into its system to meet its customer demands. The cost for hauling water into the Mesa del Caballo system for 2009 amounted to \$59,137. The Company states that it cannot absorb further water hauling costs without jeopardizing its financial viability. In order to meet its customer demands while maintaining viability, Payson has filed an application for approval of a water augmentation surcharge tariff with the Arizona Corporation Commission ("Commission").

The water augmentation surcharge tariff would provide for the Company to recover its water hauling costs from customers in the form of a monthly surcharge. It would be revenue neutral as it would only produce funds to cover the previous month's water hauling cost. The water augmentation surcharge tariff would only apply to the Mesa del Caballo system customers.

Because the water augmentation surcharge tariff rate will be based on actual usage, it is not possible for Staff to determine the precise financial impact of the surcharge. However based on the cost and the limitations of Payson's water hauling program and the usage pattern of Mesa del Caballo customers from the 2009 summer season, the typical 5/8 x 3/4 inch Mesa del Caballo customer with a median usage of 3,621 gallons could experience an increase from \$22.95 to \$137.97, an increase of \$115.02 or 501.2 percent, based on all water being supplied through water hauling.

Staff recommends approval of the water augmentation surcharge tariff sought by Payson Water Company.

Staff further recommends that the water augmentation surcharge tariff rate be interim and only effective until permanent rate relief is granted by the Commission.

Staff further recommends that the water augmentation surcharge tariff rate only be effective for Payson Water Company's Mesa del Caballo water system.

Staff further recommends that the water augmentation surcharge tariff rate solely cover documented expenses for hauling water into the Company's Mesa del Caballo water system.

Staff further recommends that the Company be directed to file, within 30 days of the Order, a revised rate schedule reflecting the water augmentation surcharge tariff with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company provide its customers the revised tariff, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate case within 12 months of the Decision made in the instant case.

Staff further recommends that if the Company believes it will need to incur debt in order to solve its water shortage problem, that it files a financing application concurrent with the rate application.

Staff further recommends that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$60,000 to ensure that there is sufficient money available to refund to customers if the Commission determines in the permanent rate case that the emergency surcharge was not needed or too large. However, should the Commission choose a minimal bond as it has in some recent emergency applications; Staff recommends an additional option of posting a cashiers check with the Commission for the lower amount, e.g. 100 dollars. This option is recommended as the Company may be unable to obtain a bond or sight draft letter of credit.

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Introduction

On March 31, 2010, Payson Water Company ("Payson" or "Company") filed an application for approval of a water augmentation surcharge tariff with the Arizona Corporation Commission ("Commission"). On April 5, 2010, the Company filed a motion to consolidate the instant application with a related Payson Water Company filing pertaining to the Company's proposed changes to its curtailment tariff for its Mesa del Caballo system. On April 22, 2010, a Procedural Order was issued consolidating the Company's filings and setting May 18, 2010, as the date for the hearing on the filings.

Payson's primary source of water for its operations has historically been groundwater pumped from wells located in its service area. Recently however, this source has been unable to meet customer demands during the summer season for the Company's Mesa del Caballo water system. The Company states it experiences an increase in usage and the number of customers on its Mesa del Caballo system during the summer season, as some of the Company's customers are seasonal. To meet the increased demand in 2009, the Company augmented its water supply by hauling water into its Mesa del Caballo system.

In its application, Payson stated that during the 2009 summer season the Company augmented its water supply by hauling water into its Mesa del Caballo system at a cost to the Company of \$59,137. The Company cannot further absorb water augmentation costs for the 2010 summer season thus creating the need for the water augmentation surcharge tariff.

The Company has been working with the representatives of the Mesa del Water Committee ("Water Committee") to formulate both a short and long-term plan for supplementing its water supply. Plans include changes to the Company's curtailment tariff that would apply only to the Mesa del Caballo system. The changes are believed by both Payson and the Water Committee to be needed in order to best manage available water resources for the water system. The proposed revisions to Payson's curtailment tariff are addressed by Staff in the Engineering Memorandum (Attachment A) attached to this Staff Report.

Background

Payson is an Arizona class C utility engaged in the business of providing potable water service to an area north of the town of Payson within unincorporated portions of Gila County, Arizona. Payson holds a certificate of convenience and necessity, which was transferred to its parent company Brooke Utilities in Commission Decision no. 60972, dated June 19, 1998.

The current rates have been in effect since March 28, 2000, per Decision No. 62401.

Customers

Payson provides water service to an area north of the town of Payson within unincorporated portions of Gila County, Arizona. As of February 28, 2010, Payson has

approximately 1,502 active water service customers, 369 of which are serviced by the Company's Mesa del Caballo water system.

Engineering Analysis

According to the Company's 2009 Annual Report, the Company's water system consists of nine wells (total production varies from 59 to 19 gallons per minute), five storage tanks (totaling to 105,000 gallons), numerous booster systems, and a distribution system serving approximately 370 service connections.

Based on Staff's analysis of the Company's well data, Staff concurs with the Company that the Mesa del Caballo System has a water supply problem. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Memorandum (Attachment A).

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Payson has no outstanding compliance issues with the Corporations Division of the Commission.

Consumer Services

A review of the Consumer Services Section database from January 1, 2007 to April 16, 2010 revealed the following customer complaints, inquiries and opinions were filed against Payson.

2007 – 17 Complaints and 1 Opinion.

2008 – 9 Complaints

2009 – 26 Complaints

2010 – 4 Complaints

All complaints have been resolved and closed.

Long-Term Planning

The Company stated in its application that its long-term plans for water augmentation include two options. The first option is to drill a new deep well that will only be viable if hydrological studies prove there is a sustainable, economically justifiable water source beneath the Mesa del Caballo system. The second option is for the Company to tap into the future C.C.

Cragin reservoir pipeline that will serve the town of Payson. The pipeline's current design will have it connected to a treatment facility located across from the Mesa del Caballo subdivision. Both options will be addressed more extensively in the Company's future permanent rate case filing.

Short-Term Planning

The Company has negotiated an agreement with the City of Payson to purchase up to 86,400 gallons of water per day to supplement the Mesa del Caballo system when water supply is inadequate to meet customer demands. The access of water sources from the City of Payson helps minimize the cost associated with hauling water due to the proximity of the city to the Mesa del Caballo system.

The Company has also explored plans for a temporary pipeline tied into the City of Payson's water system but those plans are not likely to be realized for the summer of 2010 but remain a viable option for 2011 or 2012. The Company estimates this temporary pipeline to have a rental cost for the May to September timeframe of approximately \$45,000. Additional information on the Company's temporary pipeline plans are provided in the attached Engineering Memorandum (Attachment A).

Financial Impact of Surcharge

Staff has computed the rate for Payson to haul water to be \$33.68 per thousand gallons, as shown on Schedule DRE-2. This rate represents the maximum volumetric charge the Company could charge its customers to provide water. Staff has computed this rate to depict the worst case scenario for the Company as it assumes that the Company's wells provide no water to customers. In researching the Company's water hauling charges for 2009, Staff determined that when the Company did have to haul water it was at the \$33.68 maximum rate that Staff has determined as the worst case scenario.

Based on the 2009 summer season (May to September) for the Company, Staff has computed the median usage on the system to be 3,621 gallons. The typical 5/8 x 3/4 inch Mesa del Caballo customer with a median usage of 3,621 gallons could experience an increase from \$22.95 to \$137.97, an increase of \$115.02 or 501.2 percent, based on all water being supplied through water hauling, as shown on Schedule DRE-1.

The Company cannot, however, supply all water to its customers through water hauling. In 2009, based on the Company's actual water hauling expenses, the typical customer would have experienced an increase of approximately \$16.50 per bill for usage of hauled water.

Staff believes that Payson's current situation meets the general conditions necessary for interim emergency consideration. Staff believes that Payson has experienced a situation where the ability of Payson to maintain service, pending a formal rate determination, is in serious

doubt, satisfying Condition No. 3 of the situations necessary for an interim, emergency rate set forth in Attorney General Opinion No. 71 - 17.

Because of the timing limitations inherent in emergency applications, Staff was unable to perform a full audit and based its determination on the Company's emergency application and other, readily available, sources.

Staff also recommends that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$60,000 to ensure that there is sufficient money available to refund to customers if the Commission determines in the permanent rate case that the emergency surcharge was not needed or too large. However, should the Commission choose a minimal bond, e.g. 100 dollars, as it has in some recent emergency applications; Staff recommends an additional option of posting a cashiers check for that amount with the Commission. This option is recommended as the Company may be unable to obtain a bond or sight draft letter of credit.

Staff Recommendations

Staff recommends approval of the water augmentation surcharge tariff sought by Payson Water Company.

Staff further recommends that the water augmentation surcharge tariff rate be interim and only effective until permanent rate relief is granted by the Commission.

Staff further recommends that the water augmentation surcharge tariff rate only be effective for Payson Water Company's Mesa del Caballo water system.

Staff further recommends that the water augmentation surcharge tariff rate solely cover documented expenses for hauling water into the Company's Mesa del Caballo water system.

Staff further recommends that the Company be directed to file, within 30 days of the Order, a revised rate schedule reflecting the water augmentation surcharge tariff with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company provide its customers the revised tariff, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate case within 12 months of the Decision made in the instant case.

Staff further recommends that if the Company believes it will need to incur debt in order to solve its water shortage problem, that it files a financing application concurrent with the rate application.

Staff further recommends that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$60,000 to ensure that there is sufficient money available to refund to customers if the Commission determines in the permanent rate case that the emergency surcharge was not needed or too large. However, should the Commission choose a minimal bond as it has in some recent emergency applications; Staff recommends an additional option of posting a cashiers check with the Commission for the lower amount, e.g. 100 dollars. This option is recommended as the Company may be unable to obtain a bond or sight draft letter of credit.

ALL WATER SUPPLIED THROUGH WATER HAULING RATE TYPICAL BILL ANALYSIS

Average Number of Customers: 374

<u>Usage Category</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Maximum Water Hauling Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Median Usage	3,621	\$22.95	\$137.97	\$115.02	501.2%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Water Hauling Rates</u>	<u>% Increase</u>
0	\$16.00	\$16.00	0.0%
1,000	17.92	49.68	177.2%
2,000	19.84	83.36	320.2%
3,000	21.76	117.05	437.9%
4,000	23.68	150.73	536.5%
5,000	26.67	184.41	591.5%
6,000	29.66	218.09	635.3%
7,000	32.65	251.78	671.1%
8,000	35.64	285.46	701.0%
9,000	38.63	319.14	726.1%
10,000	41.62	352.82	747.7%
15,000	56.57	521.24	821.4%
20,000	71.52	689.65	864.3%
25,000	86.47	858.06	892.3%
50,000	161.22	1,700.12	954.5%
75,000	235.97	2,542.18	977.3%
100,000	310.72	3,384.24	989.2%
125,000	385.47	4,226.30	996.4%
150,000	460.22	5,068.36	1,001.3%
175,000	534.97	5,910.42	1,004.8%
200,000	609.72	6,752.48	1,007.5%

ALL WATER SUPPLIED THROUGH WATER HAULING RATE

a	Maximum Daily Water to be Hauled (in gallons)	86,400
b	Maximum Amount Hauled Per Truck (in gallons)	6,500
c	Maximum Truck Loads per Day (a / b)	13.29
d	Truck Rental Fee per Hour	\$ 150.00
e	Time Required per Delivery (in hours)	1.2
f	Maximum Truck Costs per day (c x d x e)	\$ 2,392.62
g	Water rate from City of Payson (per thousand gallons)	\$ 5.99
h	Maximum Water Costs per day (a /1000 x g)	\$ 517.54
i	Maximum Monthly Water Hauling Cost (f + h)	\$ 2,910.16
j	Average Days per Month (May to September)	30.6
k	Maximum Monthly Water Hauling Cost (i x j)	\$ 89,050.94
l	Maximum Total Water Sold (a x j)	2,643,840
m	Maximum Water Hauling Rate per thousand (k / l x 1000)	\$ 33.68

MEMORANDUM

TO: Darak Eaddy
Public Utilities Analyst II
Utilities Division

FROM: Marlin Scott, Jr. *DS for*
Utilities Engineer
Utilities Division

DATE: May 6, 2010

RE: Payson Water Company – Mesa del Caballo System
Docket No. W-03514A-10-0116 (Water Augmentation Surcharge/Emergency Rate Tariff)
Docket No. W-03514A-10-0117 (Proposed Changes to Existing Curtailment Tariff)

Introduction

On March 31, 2010, Payson Water Company – Mesa del Caballo System (“Company”) filed applications for; 1) an emergency implementation of a surcharge or emergency rate tariff due to water shortages on its Mesa del Caballo System, and 2) proposed changes to its existing curtailment tariff. According to the Company, the proposed revised curtailment tariff should not go into effect unless the Company receives approval of its requested Water Augmentation Surcharge Tariff. These tariffs are linked due to the water augmentation requirements that are triggered once the curtailment tariff’s Stage 3 goes into effect.

The Company is located north of Payson, in Gila County, with its CC&N covering approximately 1/4 square-mile.

Water System

Operation

According to the Company’s 2009 Annual Report, the Company’s water system consists of nine wells (total production varies from 59 to 19 gallons per minute), five storage tanks (totaling to 105,000 gallons), numerous booster systems, and a distribution system serving approximately 370 service connections.

Capacity

According to the Company’s well data, the production of the wells vary throughout the year, from 59 to 19 GPM due to production depletions, resulting in a water supply problem. Staff has estimated the peak day demand to be 0.30 GPM per connection for evaluating well

capacity sufficiency. For its storage capacity evaluation, Staff estimated 345 gallons per day ("GPD") per connection. Using these factors, Staff determined that:

- a. The well capacity totaling 59 GPM could adequately serve up to 197 connections. However, the 59 GPM well capacity could vary throughout the year due to well production depletions; if production dropped to 47 GPM (due to the largest well not producing), this system could only serve 156 connections.
- b. The storage capacity of 105,000 gallons could provide 305 connections with one day's worth of storage. If the well production is considered in the storage capacity requirement, this system could provide up to 500 connections with one day's worth of storage.

If well production does not drop below the 59 GPM level, this water system could adequately serve up to 197 connections,

Water Hauled

Because of the Company's water supply problem last summer, the Company hauled 721,500 gallons of water at a cost of \$59,138. This water hauling occurred from May 2009 to August 2009.

Plans for Water Augmentation

Short-Term

The Company's short-term plan for water augmentation to the Mesa del Caballo System is a temporary pipeline, approximately 1.8 miles, from the Town of Payson's water system. This supplemental water supply is estimated to provide 60 GPM and could be available sometime in 2011. According to the Company, this temporary pipeline is projected to be an above-ground 3-inch High Density Polyethylene ("HDPE") pipeline that will be installed and operating only during the peak season from May 1 through September 30. The rental cost is estimated at \$300 per day, at a total of \$45,000 for a 5-month period.

Long-Term

The Company's long-term plan for water augmentation to the Mesa del Caballo System includes two options; 1) a deep well project, if feasible, or 2) tapping into the future C.C. Cragin reservoir pipeline that will serve the Town of Payson. According to the Company, these options will be addressed more fully in the Company's permanent rate case proceeding.

Proposed Revision to Curtailment Tariff

The Company currently has a curtailment tariff that was approved by Decision No. 67821 (May 5, 2005). In its application, the Company requested certain modifications to its existing

tariff. Staff has reviewed the Company's proposed modifications and has accepted most of the Company's changes with the exception of one modification, the inclusion of the "Water Consumption Calculation of Daily Use" sheet. It is Staff's opinion that this change should not be approved because it will be difficult to administer and explain to customers. Staff is also concerned that seasonal customers who do not have a water use record could be penalized and those customers who have voluntarily reduced their water use in the past could be penalized more than the heavy users.

The attached Tariff Schedule shows the Company's proposal with Staff's changes. Staff recommends approval of the attached Tariff Schedule as amended by Staff.

Arizona Department of Environmental Quality ("ADEQ") Compliance

In an ADEQ compliance status report, dated May 4, 2010, ADEQ has reported that the Company's water system, Public Water System #04-030, is in compliance with ADEQ regulations and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Arizona Corporation Commission ("ACC") Compliance

A check with the Utilities Division Compliance Section on May 4, 2010, showed no delinquent ACC compliance items for the Payson Water Company.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located in any ADWR Active Management Area. According to an ADWR compliance status report, dated May 5, 2010, ADWR reported that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

Conclusions/Recommendations

Staff concurs with the Company that the Mesa del Caballo System has a water supply problem.

The Company is in compliance with ADEQ and ADWR regulations.

Staff recommends approval of the Company's proposed curtailment tariff, as amended by Staff, shown in the attached Tariff Schedule.

Staff further recommends, and concurs with the Company's request, that the proposed revised curtailment tariff not go into effect unless the Company receives approval of its requested Water Augmentation Surcharge Tariff.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No.: W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 1 of 8
Decision No.: _____
Effective: _____

CURTAILMENT PLAN FOR PAYSON WATER COMPANY, INC.

ADEQ Public Water System: Mesa del Caballo (#04-030)

APPLICABILITY

Payson Water Company, Inc. ("the Company") is authorized by the Arizona Corporation Commission to curtail water service to all customers within its certificated area under the terms and conditions listed in this tariff. As needed, this tariff will be implemented by the Company for customers of the Mesa del Caballo water system ("Water System").

This curtailment plan shall become a part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.

For the purposes of this curtailment plan the term "Peak Season" shall be defined as the period ~~between from~~ May 1 ~~and October 1~~ through September 30 annually. The term "Off-Peak Season" shall be defined as all other periods not defined as Peak Season.

The Company shall provide a copy of the curtailment tariff to any customer, upon request.

STAGES

Stage 1 Exists When:

Water System's storage level is 85% or more of capacity and there are no known problems with production or storage.

Restrictions: Under Stage 1 conditions, the water system is deemed to be operating normally and no curtailment is necessary, except as follows: (a) no outside watering is permitted on Mondays; (b) outside water is permitted on Tuesdays, Thursdays, and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays, Fridays, and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or any form of irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 1 conditions, no water augmentation is required.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No.: W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 2 of 8
Decision No.: _____
Effective: _____

Notice: Under Stage 1 conditions, no notice is required.

Stage 2 Exists When:

Water System's storage level is less than 85% of capacity but more than 70% of capacity for at least forty-eight (48) consecutive hours. Further, the Company has identified operation circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 2 conditions, **voluntary** conservation measures should be employed by customers to reduce indoor and outdoor water consumption by at least 20% as measured on a daily basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, and Fridays; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 2 conditions, no water augmentation is required.

Notice: Under Stage 2 conditions, the Company is required to notify customers by (a) door-to-door delivering of written notices at each service address; or, (b) by changing local water conservation staging signs; or (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 2 conditions, and a need to conserve water.

Stage 3 Exists When:

Water System's storage level is less than 70% of capacity but more than 60% of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified operation circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 3 conditions, **mandatory** conservation measures should be employed by customers to reduce indoor and outdoor water consumption by at least 30% as measured on a daily basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, and Fridays; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No.: W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 3 of 8
Decision No.: _____
Effective: _____

permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 3 conditions, the Company shall inform customers of the Water System of the **mandatory** restriction to employ water conservation measures to reduce daily water consumption. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 3 conditions, the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other indoor or outdoor water intensive activity. Under Stage 3 conditions, the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

Water Augmentation: Under Stage 3 conditions, the Company will undertake reasonable measures to augment its well production until such time that Stage 2 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 3 conditions, the Company is required to notify customers by (a) door-to-door delivering of written notices at each service address; or, (b) by changing local water conservation staging signs; or (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 3 conditions, and a need to conserve water.

Enforcement: Once the Company has properly provided notice of Stage 3 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan will result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410(B)(1)(d). The reconnection fee for a violation of a Stage 3 curtailment notice shall be:

First offense:	\$200
Second offense: (also see Reconnection Fees Section)	\$350
Third offense:	\$750

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No.: W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 4 of 8
Decision No.: _____
Effective: _____

If a customer believes their water service has been disconnected in error, the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

Stage 4 Exists When:

Water System's storage level is less than 60% of capacity but more than 50% capacity of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified operation circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 4 conditions, **mandatory** conservation measures should be employed by customers to reduce indoor and outdoor water consumption by at least 40% as measured on a daily basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, Fridays and Sundays; (b) outside water is permitted on Tuesdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 4 conditions, the Company shall inform customers of the Water System's **mandatory** restriction to employ water conservation measures to reduce daily water consumption. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 4 conditions, the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other indoor or outdoor water intensive activity. Under Stage 4 conditions, the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

Water Augmentation: Under Stage 4 conditions, the Company will undertake reasonable measures to augment its well production until such time that Stage 3 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 4 conditions, the Company is required to notify customers by (a) door-to-door delivering of written notices at each service address; or, (b) by changing local water conservation staging signs; or (c) by means of electronic mail; or, (d) by means of any other

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reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 4 conditions, and a need to conserve water.

Enforcement: Once the Company has properly provided notice of Stage 3 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan will result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410(B)(1)(d). The reconnection fee for a violation of a Stage 4 curtailment notice shall be:

First offense:	\$400
Second offense: (also see Reconnection Fees Section)	\$750
Third offense:	\$1,500

If a customer believes their water service has been disconnected in error, the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

Stage 5 Exists When:

Water System's storage level is less than 50% of capacity for at least twelve (12) consecutive hours. Further, the Company has identified operation circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 5 conditions, **mandatory** conservation measures should be employed by customers to reduce indoor and outdoor water consumption by at least 50% as measured on a daily basis. Under Stage 5 conditions, no outside watering is permitted. Under Stage 5 conditions, the Company shall inform customers of the Water System's **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 5 conditions, the following uses of water are strictly prohibited: (1) all outdoor watering; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other indoor or outdoor water intensive activity. Under Stage 5 conditions, the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

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Water Augmentation: Under Stage 5 conditions, the Company will undertake reasonable measures to augment its well production until such time that Stage 4 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 5 conditions, the Company is required to notify customers by (a) door-to-door delivering of written notices at each service address; or, (b) by changing local water conservation staging signs; or (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 5 conditions, and a need to conserve water.

Enforcement: Once the Company has properly provided notice of Stage 5 conditions, the failure of a customer to comply with this Curtailment Plan within twelve (12) hours of receiving notice of its violation of this Curtailment Plan will result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410(B)(1)(d). The reconnection fee for a violation of a Stage 5 curtailment notice shall be:

First offense:	\$800
Second offense: (also see Reconnection Fees Section)	\$1,500
Third offense:	\$3,000

If a customer believes their water service has been disconnected in error, the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

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NOTICE

If the Company elects to provide customer water conservation stage notice by use of local sign postings, the Company shall post and maintain at least two (2) signs per water system in noticeable locations that include the entrances to major subdivisions, indicating the Company is operating under its Curtailment Plan Tariff, beginning with Stage 1. Each sign shall be at least four feet by four feet, and color-coded to denote the current stage, as follows:

- Stage 1 – Green
- Stage 2 – Blue
- Stage 3 – Yellow
- Stage 4 – Orange
- Stage 5 – Red

The Company shall notify the Consumer Services Division of the Utilities Division at least;

- Twelve (12) hours prior to entering Stage 2.
- Six (6) hours prior to entering Stage 3.
- Six (6) hours prior to entering Stage 4.
- For (4) hours prior to entering Stage 5.

~~within two hours of entering Stage 3, Stage 4, or Stage 5 conditions.~~

RECONNECTION FEES

All reconnection fees shall be cumulative for a calendar year regardless of the Stage that an offense occurs. For example, if a customer fails to meet the requirements of a water conservation stage, observe required water conservation measures under Stage 3 condition, and after receiving notice that a water conservation stage is in effect, the reconnection fee will be \$200. If the same customer in the same calendar year commits an offense under Stage 5 conditions, the reconnection fee shall be \$1,500. By May 15 and October 15 annually, the Company shall provide the Director of the Utilities Division with a list of customers ~~who~~ ~~why~~ paid reconnection fees for failure to comply with the mandatory provisions of the Curtailment Plan Tariff.

Any customer who has service disconnected according to this Curtailment Plan Tariff more than once during a calendar year shall have those terminations count against them in the next calendar year for purposes of establishing the reconnection fee, should another disconnection occur.

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WATER CONSUMPTION CALCULATION OF "DAILY USE"

For the purpose of calculating "daily use" under the Restriction section of Stage 2, Stage 3, Stage 4 and Stage 5 water conservation conditions, the following definition shall apply:

Customer water meter reading today, minus the customer water meter yesterday, multiplied by 30 days, compared to the higher of (a) the immediately preceding month's actual water consumption, or (b) the same month last year for the same service location. Under this definition of "daily use" the water customer shall be deemed in violation of a specific water conservation Stage if the calculation of "daily use" exceeds the higher of either (a) or (b) herein.

Example 1: Customer meter reads 0000986654 today. Customer meter reads 0000986354 yesterday. The difference in meter reads is 300 gallons for one day or 9,000 gallons for 30 days. Customer actual use in the immediately preceding month was 7,000 gallons. Customer's actual in the same month last year was 6,000 gallons. Under Stage 3 mandatory water conservation conditions the customer is required to reduce consumption 30% or 2,700 gallons. Customer is in violation of Stage 3 condition because his current "daily use" calculation is greater than either period (a) or period (b) as defined herein.

Example 2: Customer meter reads 000055411 today. Customer meter reads 000055311 yesterday. The difference in meter reads is 100 gallons for one day or 3,000 gallons for 30 days. Customer actual use in the immediately preceding month was 6,000 gallons. Customer's actual in the same month last year was 5,000 gallons. Under Stage 3 mandatory water conservation conditions the customer is required to reduce consumption 30% or 900 gallons. Customer is not in violation of Stage 3 condition because his current "daily use" calculation has been reduced more than either period (a) or period (b) as defined herein.

Example 3: Customer meter reads 003130 today. Customer meter reads 003000 yesterday. The difference in meter reads is 130 gallons for one day or 3,900 gallons for 30 days. Customer actual use in the immediately preceding month was 6,000 gallons. Customer's actual in the same month last year was 3,000 gallons. Under Stage 3 mandatory water conservation conditions the customer is required to reduce consumption 30% or 1,170 gallons. Customer is in violation of Stage 3 condition because his current "daily use" calculation has not been reduced more than period (b) as defined herein.